

The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

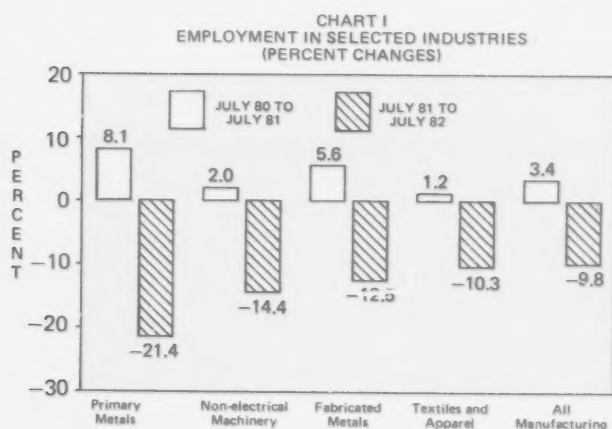
FRIDAY, SEPTEMBER 3, 1982

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Soggy Economic Conditions . . .

Although the recession may be about to bottom out if July's advance in the index of the leading economic indicators and the sharp rise in factory orders are any guides, the turnaround will not come soon enough for many companies and their laid-off workers. The rate of business failures recently spiked upward again, reaching its highest level since the Great Depression. At the same time, the unemployment rate remained riveted at 9.8 per cent in August—its postwar high.

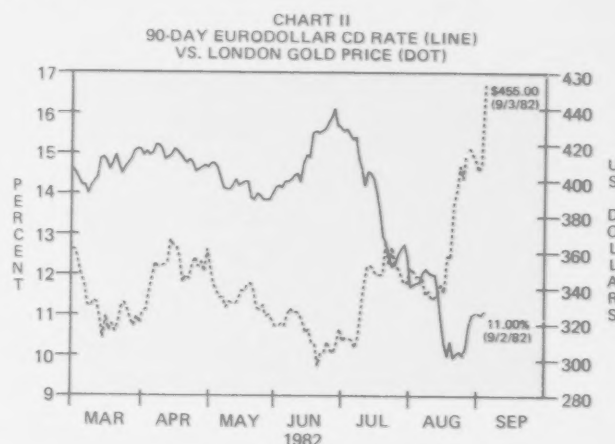
Following a brief midsummer respite, commercial and industrial failures rebounded to a 1982 record in late August. So far this year, failures are running almost 50 per cent ahead of the pace of a year ago and more than double the rate of 1980. Bankruptcies have now spread to virtually all sectors of the economy, with construction and such service industries as retailing and wholesaling especially hard hit. In the final week of August alone, casualties jumped to almost 700, well within striking distance of the all-time peak reached in January, 1932, when 799 businesses failed.



. . . Claim A Rising Toll Of Businesses . . .

What is more, larger concerns are now failing at a much faster rate than smaller "mom and pop" establishments. Many businesses have been unable to gen-

erate sufficient earnings to meet the cost of their swollen debt and so far this year, an average of 246 companies with liabilities of \$100,000 or more have failed per week—up 57 per cent from the comparable period in 1981. During the week ending August 26, a total of 366 firms with liabilities of \$100,000 or more failed—almost three times the rate of a year earlier.



Nor does the prolonged weakness of the economy augur well for a quick improvement in the labor market. The high rate of business failures, sizable chunks of idle capacity and deteriorating profit margins are almost sure to delay a sustained improvement in the employment picture until long after a recovery is firmly underway. In the past four recessions, a decline in the unemployment rate trailed the cyclical trough by an average of six months.

. . . And Swell The Ranks Of Unemployed

Indeed, there are disturbing signs that the unemployment situation may get worse before it gets better. The number of people applying for unemployment insurance soared during the two weeks ending August 21, reversing the downward trend evident since the end of April. Initial unemployment claims during this period topped 600,000 for two weeks in a row—the highest two-week total since the end of March. Another indicator portending further



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deterioration in the employment picture is the sharp drop in the Conference Board's index of help wanted advertising. It fell 35 per cent below year-earlier levels in July. What is more, when the increase in unemployment is taken into account, the number of job seekers per advertised job opening has almost doubled from a year ago.

The slowdown in economic activity has reduced employment in virtually all industries, with manufacturing suffering the most. Since the start of the recession in July, 1981, manufacturing payrolls have contracted by almost ten per cent (see Chart 1), leaving 12 per cent of all manufacturing workers unemployed last month. This decline was paced by a loss of 216,000 jobs in the primary metals' industry

where currently more than one out of every five workers is out of a job.

The number of steel workers, for example, declined to 295,000 in June—the lowest number since the early 1930s. Because of sharp cutbacks in automobile production and the decline in residential and nonresidential construction, steel mills have been operating at less than 40 per cent of capacity recently, while many plants have closed their doors—some permanently. Shipments of raw steel are now running more than 30 per cent below the comparable period of a year ago, while production is currently off by about 50 per cent.

Another area deeply affected by the recession's bite

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 8/25/82	% Change Since	
		Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	142.237	— .545	+ 7.656
Loans to Depository Inst.	.609	+ .126	— 1.112
Float	1.837	— .066	— .382
Total Reserve Bank Credit	153.783	— 1.066	+ 6.418
Treasury Deposits with			
Federal Reserve Banks	2.872	— .101	— .234
Currency Outside Banks	132.845	— .511	+ 8.404
Member Bank Reserves:			
Required	40.042	— .284	— 1.195
Excess (Deficiency)	.239	— .071	— .071
Total Reserves Held	40.281	— .355	— 1.266
Net Borrowed Reserves	.276	+ .234	— .889
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	94.497	— .661	+ 2.850
Monetary Aggregates †			
M1	456.3	+ 2.7‡	+ 5.5‡
M2 (July '82)	1,923.3	+ 9.1	+ 9.7
M3 (July '82)	2,320.2	+ 11.0	+ 10.4
L (April '82)	2,752.3	+ 12.7	+ 12.1

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 9/3/82

	3 Months	6 Months
‡ U.S. Treasury Bills	8.20%	9.45%
* Federal Agencies	8.85	10.00
* Project Notes—Taxfree (46% Taxable Equivalent)	8.61	9.81
Negotiable Time CDs		
Manufacturers Hanover	Rates By Arrangement	
Secondary Market—Prime	10.60	11.80
‡ Finance Company Paper—Prime		
5- 14 days	10.38%	Oct. 10.10%
15- 29 days	10.30	Nov. 10.20
30- 59 days	10.13	Dec. 10.30
60- 89 days	10.00	Jan. 11.00
90-179 days	10.00	Feb. 11.00
180-239 days	10.00	Mar. 11.00
240-270 days	10.00	
‡ Industrial Paper—Prime		
30- 89 days	10.00%	† Federal Funds
90-120 days	10.13	Effective Rate 10.30%

‡ Discount basis.

* Subject to availability.

† Estimated.

Selected Business Indicators

(All Data Reported Seasonally Adjusted)

	Latest Period to End of Period	Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'82	\$ 3,041	\$ 2,996
Gross National Product (1972 Dollars)*	2nd Q'82	\$ 1,475	\$ 1,471
Percent Change, Annual Rate	2nd Q'82	1.3	— 5.1
Change in Consumer Prices (all urban consumers)*	Jul '82	7.2%	12.0%
Change in Producer Prices*	Jul '82	7.2%	12.0%
Civilian Employment (Thousands of Persons) †	Aug '82n	99,839	99,732
Unemployment as % of Civilian Labor Force †	Aug '82n	9.8%	9.8%
Personal Income*	Jul '82	\$2,592	\$2,567
Leading Indicators Composite Index (1967=100) †	Jul '82n	129.8	128.1
Industrial Production Index (1967=100) †	Jul '82	138.1	138.2
Net Change in Consumer Installment Credit †	Jun '82	\$ 1.35	\$ 1.40
U.S. Merchandise Trade Balance †	Jul '82	—\$ 2.42	—\$ 3.44
Plant and Equipment Expenditures*	3rd Q'82	\$328.04(a)	\$336.77(a)
Private Housing Starts (Thousands of Units)*	Jul '82	1,211	906
New Construction Expenditures*	Jul '82n	\$ 228.5	\$ 230.2
Total Business Inventories †	Jun '82	\$ 512.0	\$ 510.4
Total Business Sales †	Jun '82	\$ 344.5	\$ 349.1

* Seasonally adjusted annual rate.

† Seasonally adjusted.

n-Newly reported figure.

a-Anticipated.

is the textiles and apparel industry. In the past three years, payrolls were reduced by almost 300,000 workers, currently leaving almost 15 per cent of the work force unemployed. According to the ILGWU a total of 1.2 million workers is now employed nationwide in apparel manufacturing (not including knitted clothing), down from 1.34 million in 1975.

Gold Prices Soar

Despite the gloomy employment picture, far better days are here again for the gold bugs. In the last six months, gold prices have gyrated widely in response to a rapidly shifting panorama of economic and political events. On June 21, the gold price dropped to its lowest point (\$297 per ounce) since mid-

August, 1979. But by the end of last week, just two months later, gold had skyrocketed to \$455 per ounce—up 53 per cent over the mid-June low—and reached its highest selling price since one year ago.

A wide range of factors has influenced the demand for gold. The Falkland Islands crisis, for example, caused a sharp rise in gold prices in early April, followed by an even greater decline in May and June as fears that the conflict would escalate, abated (see Chart II). Heightened investor concerns over widely-publicized corporate bankruptcies, debt reschedulings and the poor prospects for global economic growth in the near future, have increased the demand for gold.

(Continued on back page)

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Week Ago	Year Ago
Negotiable Time CD's			
Weekly Reporting Banks			
Nationwide (8/19/82)	148,649	+ 3,855	+21,762
New York City (8/18/82)	39,772	+ 1,834	+ 9,733
Commercial Paper (8/18/82)	178,318	- 1,170	+24,279

Bank Loans

(Millions of Dollars)

	Commercial and Industrial Loans			
	Latest Week	Change Week Ago	Year Ago	
Weekly Reporting Large Commercial Banks				
Nationwide (8/18/82)	211,116	- 203	+27,855	
New York City (8/18/82)	59,249	- 43	+ 5,837	
	Total Loans Gross Adjusted			
	Latest Week	Change Week Ago	Year Ago	
Nationwide (8/18/82)	491,993	+ 3,247	+45,997	
New York City (8/18/82)	116,182	+ 2,016	+10,683	

Financial Markets

	Friday 9/3/82	Change Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Billst	8.54%	+ .42	- 7.66
180-Day Billst	10.10	+ 1.08	- 6.90
Longest Billst	10.89	- .06	- 6.21
Recent Issues:			
11 ⁵ /8s 8/31/84	11.65	- .26	
14 ⁷ /8s 6/30/86	12.53	+ .08	
13 ³ /4s 5/15/92	12.44	- .27	
14s 11/15/11	12.19	- .29	
Municipals:			
Bond Buyer—20 Bond Index* (9/2/82)	10.74%	+ .36	- 2.36
Blue List Total (\$ Million)	\$1,165	+ \$177	+ \$539
30-Day Visible Supply (\$ Million)	\$2,521	+ \$937	+ \$1,176
Total	\$3,686	+\$1,114	+ \$1,715
Corporates:			
Moody's Aa Composite (9/2/82)	13.98%	+ .04	- 1.79
30-Day Visible Supply (\$ Million) ‡	\$1,410	+ \$540	NA
Stocks:			
Dow-Jones Averages:			
Industrials	925.13	+ 41.66	+ 63.45
Transportation	369.68	+ 19.86	+ 11.02
Utilities	117.29	+ 3.04	+ 10.85
65 Stocks	359.52	+ 16.06	+ 22.20
Standard and Poor's 500 Stocks	122.68	+ 5.57	+ 2.61
N.Y.S.E. Composite Index	70.26	+ 3.03	+ .71
N.Y.S.E. Avg. Daily Vol. for Week (000's)	86,880	-23,200	+ 45,278

* 46% Taxable equivalent 19.89%.

‡ Series redefined: Historical data not available.

† Bond equivalent.

International Rates

	Friday 9/3/82	
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	10.38%	9.63%
1 month	11.00	10.00
3 month	11.50	10.31
6 month	12.50	12.00
1 year	13.00	12.38
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	13.37%	13.25%
Long Term (7 to 15 yrs.)	13.57	13.50
FOREIGN EXCHANGE SPOT RATES		
New York Opening (9/3/82)	U.S. \$ Equivalent	Currency Per U.S. \$
Belgium	.02122	47.12
Canada	.8106	1.2336
Denmark	.1162	8.6050
France	.1445	6.9215
Germany	.4072	2.4555
Italy	.0007210	1387.00
Japan	.003910	255.78
Mexico	.007353	136.00
Netherlands	.3717	2.6900
Switzerland	.4797	2.0845
U.K.	1.7408	.5744

The attractiveness of holding gold has been even further enhanced by the recent decline in domestic and euromarket interest rates, which reduces the opportunity costs of holding gold as an investment and, at the same time, has made other forms of investment somewhat less appealing. As eurodollar deposit rates have fallen since mid-June, the price of gold on the international markets has risen correspondingly.

An important reason for the attractiveness of gold in the past has been as a hedge against inflation. In recent years, this has been less of a factor because the increases in the price of gold have far exceeded the inflation rate (Financial Digest—March 22, 1982). As inflation has eased in the United States and abroad, it has become even less important in the rise in gold prices.

Demand for gold has been increasing from a number of sources. Industrial (including jewelry) users of gold are reported to have increased their purchases

over the past year, taking advantage of generally low prices to restore inventories. At the same time, world central banks have marginally added to their gold reserves, as well. Although these purchases have not directly contributed to the recent escalation in gold prices, they have been a source of underlying market support. Further, after huge gold sales by the USSR in 1981 (estimated at 280 metric tons compared with 80 metric tons in 1980), the Soviet Union appears to be less active in the market so far this year, reducing available supplies.

The quantities of gold traded on a daily basis are very small. Total new gold production in 1981 was about 950 metric tons and the total amount of gold traded last year was estimated at 1550 metric tons. Hence, relatively small transactions can have a marked effect on the market price for gold. So, too, small changes in investor sentiment regarding the desirability of holding gold can produce dramatic price swings. H

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